

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

Received by the Regents
June 21, 2007

Subject: Report of University Internal Audits
March 1, 2007 – May 10, 2007

Background:

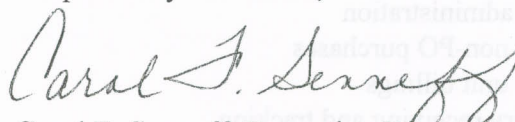
This is the report of the Office of University Audits activities for the period **March 1, 2007 through May 10, 2007**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- Summaries of each audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of **May 10, 2007**.

If you have any questions or would like additional information, please contact me at 647-7500 or by e-mail at cseff@umich.edu.

Respectively submitted,



Carol F. Senneff, Executive Director
University Audits

June 2007

ORIGINAL REPORTS

Campus

MAIS Financial Internal Control Assessment

#2007-203

Issued April 11, 2007

MAIS designs, implements and supports the University of Michigan administrative information systems, including M-Pathways, the eEmploy applicant management system, the Development/Alumni Constituency (DAC) systems and numerous smaller systems, and processes.

An audit of financial controls within MAIS was conducted for fiscal year 2006. This review by University Audits focused on the internal control structure related to MAIS internal business processes including payroll, purchasing, procurement cards and travel and hosting. The following processes were deemed significant and reviewed as part of this audit:

- Purchase Order / eProcurement
- Non-Purchase Order vouchers
- Travel & Hosting
- Contract Employees
- Payroll
- P-Cards

University Audits found MAIS fiscally responsible and exercising appropriate financial controls over the areas examined. No systemic weaknesses were found in the processes reviewed. MAIS has created a strong control environment by developing a set of comprehensive policies and procedures.

Plant Operations Zone Maintenance Purchasing Controls

#2007-812

Issued April 24, 2007

University Audits conducted a review of the purchasing controls at Zone Maintenance. A department of Plant Operations, Zone Maintenance is composed of approximately 125 employees within 3 main areas - Fire Protection Shop, Fire Extinguisher Shop and Zone Shops. To determine the adequacy and effectiveness of controls governing the purchasing process, the following procedures were reviewed:

- P-Card administration
- PO and non-PO purchases
- Service unit billings
- Inventory receiving and tracking
- Monitoring of purchasing activities

Control Issues:

- **Purchasing Approval Process** - The purchasing approval process within Zone Maintenance is informal. Supervisors order parts or items as requested by staff or as needed for the shop. A formal approval is not required prior to placing orders, and no formal documentation process exists by which the purchaser informs the manager of the necessity or rationale for the purchase. Specifically, non-PO purchases are requested by the business manager, processed by the administrative assistant and approved by the Plant Payroll and Accounts Payable Office (PPAPO).

Management Plan - Although this audit addressed Zone Maintenance purchasing processes, Plant Operations will implement the action plans throughout the various departments within

Plant Operations. Our responses, therefore, will not only pertain to Zone Maintenance, but to Plant Operations in its entirety.

To remain a competitive service provider, Plant Operations must provide repairs and services as quickly as possible. Requiring material and supply order reviews prior to order placement could significantly hamper timely turnaround in all aspects of our business.

- o Purchase approval and communication processes will be developed to address high-priced non-PO purchases, as recommended. A threshold of \$500 per order is presently the level requiring additional supervisory notification. Orders at or above this level will require first-line or second-line supervisory approval, as appropriate.
- o A formal Plant Operations P-Card policy is being developed. This policy will outline the purchasing processes and formalize approval and communication procedures. The estimated completion date is April 30, 2007. The policy will be based on audit recommendations and will specifically address relevance and reasonableness, pre-approval thresholds, etc.
- Inventory Receiving and Tracking - The Zone Maintenance receiving process does not include formal procedures for package receipt, verification and documentation. The expeditors within Zone Maintenance collect some orders placed within the department. The foreman that placed the order informs the expeditor of the location of the items awaiting pickup. The expeditor obtains the order and delivers it to the foreman or technician that requested the parts. Expeditors do not review or verify contents of the package.

Additionally, a formal process does not exist for tracking inventory within the department. Packages ordered and shipped via US Postal Service or delivery service are shipped to the Plant Operations receiving dock. Staff at the receiving dock sign for packages, but do not open the packages or view the contents. Packages are then delivered to the recipient. Receipts are not entered into a log or system for verification and tracking purposes.

Management Plan - Plant Operations will institute a random, self audit process for situations in which supervisors can verbally confirm the intended delivery items were actually received. Many items ordered by Plant Operations are not easily identifiable. For example, electrical components for a home furnace would not appear to be any different than an electrical component for a University elevator control board. For this reason:

- o With the implementation of the new Plant P-Card policy, Plant will require that deliveries are shipped to the parent shop. However, some purchased items will continue to require direct delivery to the job site in coordination with repairs already underway. Expeditors are generally dispatched by supervisors and their purchase pickup locations, supplies and materials are known through constant radio contact and monitoring of their activities.
- o Plant will endeavor over the next 12 months, by March 15, 2008, to identify funding, recruit and assign an additional FTE, or portion thereof, to implement an inventory tracking and equipment management program across all Plant departments. This position will tentatively report to the Work Control Supervisor or Material Purchasing Manager as determined through further development of the program.
- P-Card Administration - A formal process does not exist by which purchasing card (P-Card) limits are set, reviewed and adjusted. Per the Plant P-Card Reconciliation Process, PPAP reconciles P-Card transaction information in M-Pathways. PPAP also prints P-Card

statements for all Plant employees and sends the statement and any supporting documentation back to the cardholder for review. The cardholder is responsible to review the P-Card statement and supporting documentation, make adjustments as necessary, sign the statement, obtain the P-Card administrator's signature and submit the statement and supporting documentation to the P-Card Group. Per discussion with PPAPPO staff, P-Card administrators may submit the P-Card statement and supporting documentation to the P-Card Group once approved.

Management Plan - Revisions to the Plant P-Card administration process were made during the audit. Plant Operations has developed processes in support of the audit recommendations.

- o Reviews of P-Card approval limitations are completed by the Plant Controller. By April 30, 2007, the Plant Controller will review current P-Card limits and activity to ensure spending thresholds are appropriate for the significantly reduced number of P-Card holders within Plant Operations. Subsequent to this review, adjustments to P-Card limits will only be made by exception. Approval by the Plant Controller and respective Associate Director will be required for all limit adjustments.
 - o Audit recommendations will also form the basis for a new Plant policy on P-Card usage, to be issued by the Plant Director. The policy is currently in draft form and should be implemented by April 30, 2007.
 - o All Plant P-Card holders received Plant Operations Rules and Responsibilities training for P-Cards during sessions held March 13-23, 2007.
- Monitoring Controls over Purchasing - Formal procedures for monitoring purchasing activity within Zone Maintenance do not exist. The business manager reviews a report of service unit billings for any irregularities or abnormal usage on a monthly basis; however, due to the size of the report, a detailed review is not performed. The budget report is also reviewed to compare actual purchases with budgeted allowances. P-Card transactions are reviewed during the monthly reconciliation process; however, P-Card activity is not monitored for abnormal or excessive usage. No formal review is performed of purchase order and non-purchase order activity.

Management Plan - Our current self auditing effort sets a foundation for incorporating a similar process for P-Card purchases. Plant Operations generally has a very aggressive monitoring activity for purchases. Bi-weekly accounts of materials and supplies purchased are provided to all supervisors for review against contract pricing, purchasing trends and salient purchaser analysis. Service unit billing listings are provided monthly to supervisors for review and reconciliation of any detected errors. Plant also performs self audits of M-Pathways procurements. Reviews are performed on 10% of all orders under \$10,000 and on all orders over \$10,000.

- o Plant Operations plans to implement similar self audits for P-Card purchases. Supervisors will validate a random sample of P-Card purchases by obtaining duplicate invoice copies from suppliers and comparing them to the original order or P-Card statement. Such a review should detect falsification of original documents, delivery addresses and purchasing prices. This will be implemented for the first complete month (May 2007) following issuance of the new policy.
- o In addition, P-Card transaction reports will be provided to supervision on a recurring basis (i.e., monthly, quarterly, semi-annual, annual basis) for review of trends, transaction volume and purchase totals. We will implement a recurring P-Card report review within the Plant Operations P-Card policy.

- o On our overall purchases (P-Card, SUB, PO & non-PO purchases, etc), Plant Operations will implement quarterly purchasing trend analysis through the use of Business Objects, specifically the Vendor Utilization Report. We expect this report, and any subsequent drill down information required, will address the overall trending analysis indicated in this audit recommendation. We believe we can implement this report generation and review requirement immediately for the recently completed third quarter (ended March 31, 2007). Plant Operations will complete the report analysis on a quarterly basis thereafter.
- o Over the last few months our internal purchasing processes and reports have struggled because of the interruptions created by the closure of M-Stores. Multiple requests for additional material and supplier contracts have gone unanswered. Twenty-one requests currently exist for the establishment of contracts through Procurement. In the interim, P-Cards were used in lieu of these contracts being in place. Plant Operations will work with Procurement Services to establish vendor contracts, as appropriate.

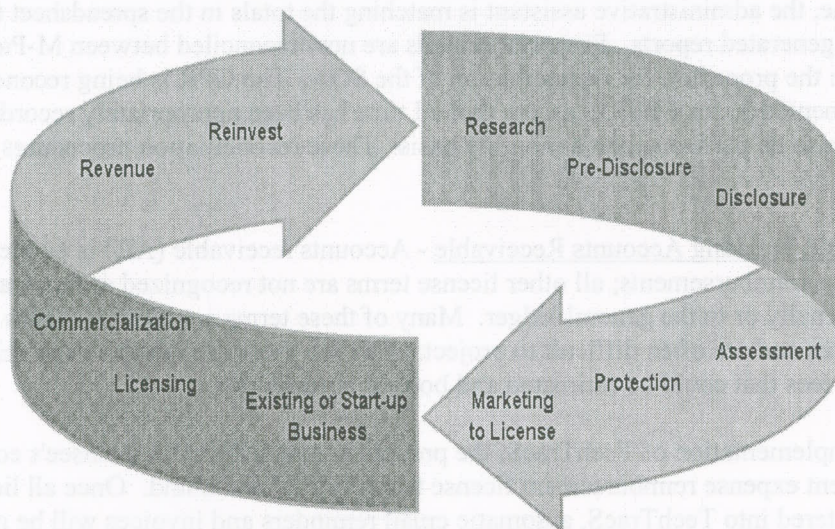
A follow-up review will be conducted during the first quarter of fiscal year 2008.

Office of Technology Transfer Key Processes

#2007-105

Issued April 30, 2007

The Office of Technology Transfer (OTT) is responsible for managing and marketing the University’s intellectual property assets. Their mission is “to effectively transfer University technologies to the market so as to generate benefits for the University, the community and the general public.” The organization consists of a central Office of Technology Transfer and one satellite location in the College of Engineering. OTT receives invention disclosures from University of Michigan faculty and researchers, evaluates these disclosures for their commercial potential, obtains the appropriate protection, markets the technologies, and licenses them to the industry. If successfully licensed, revenues provide funding to inventors’ departments and schools, as well as the inventors themselves. The following diagram represents the components of the tech transfer process:



During FY 2006, OTT implemented the final financial module of Knowledge Sharing Systems TechTracS. This system enables automation of many key processes including government reporting and monitoring of terms. Implementation of this module consumed a significant amount of OTT personnel resources during FY06, but is now providing enhanced financial information and control.

The primary objective of this audit was to determine whether OTT has adequate procedures to monitor and control the following key processes:

- Managing and evaluating invention disclosures
- Marketing technologies
- Obtaining appropriate protection for intellectual property
- Assisting with start-up companies
- Licensing
- Distributing royalty revenue
- Maintaining compliance with Bayh-Dole reporting requirements
- Securing and retaining records
- Educating faculty, employees, and students regarding the roles of OTT as well as legal and institutional requirements relating to intellectual property
- Cash handling, procurement and payroll processes

Control Issues:

- Reconciliations - The statement of activity (SOA) reconciliation was several months behind due to the TechTracS implementation. The current process compares transactions in a spreadsheet created by the systems manager from various M-Pathways reports to source documentation, instead of using the actual SOA. The systems manager has the ability to initiate and approve purchases, which creates a lack of separate responsibilities between initiating and reconciling a purchase.

The Gross Pay Register (GPR) was not being reconciled to source appointment documentation to verify the appropriateness of time reporting and payroll expenses. Monthly reconciliations of the GPR and SOA are required by Standard Practice Guide (SPG) section 518.1 and SPG section 500.1, respectively and help ensure that department's funds are used appropriately and recorded correctly.

Management Plan - The SOA reconciliation is now up-to-date and is being performed monthly by the financial specialist and an administrative assistant. To address the segregation of duties issue, the administrative assistant is matching the totals in the spreadsheet to totals from system generated reports. Financial records are now reconciled between M-Pathways and TechTracS in the procedure for reconciliation of the SOA. The GPR is being reconciled to source documentation for FY07 to assure that all time has been appropriately recorded. This process will also be performed on a monthly basis. These reconciliation procedures will be documented.

- Monitoring and Tracking Accounts Receivable - Accounts receivable (AR) is booked for patent expense reimbursements; all other license terms are not recognized as receivables and recorded internally or to the general ledger. Many of these terms are based on sales and milestone dates and are often difficult to project; however, there are issuance and minimum maintenance fees that could be estimated and booked accordingly.

Due to the implementation of TechTracS, the process to manually track licensee's compliance with non patent expense reimbursement license terms had fallen behind. Once all license terms have been entered into TechTracS, automatic email reminders and invoices will be generated from the system for collection of receivables.

A significant amount of AR for patent expense reimbursements is over 120 days past due, which may be appropriate due to the unique nature of OTT receivables; however, OTT has been tracking monthly and making personal contact to maximize collections. This system was implemented by OTT after they encountered a problem with AR in FY04.

Management Plan - Nearly all license terms have now been entered into TechTracS, and automated procedures are being implemented. This procedure will be refined and documented reflecting all automated features once automation is fully implemented. Once agreement terms are entered in TechTracS, they will be monitored and booked to PeopleSoft along with the patent expense reimbursements receivable. We will meet with Financial Operations to discuss the management of our accounts receivable.

- Assessing Royalty Reports/Payments from Licensees - Procedures for reviewing royalty reports from licensees to determine if further action is required and the plan to conduct full audits of specific licensee's royalty reporting are not documented. Reviewing royalty reports and performing regular audits of select licensees will help ensure the accuracy and completeness of royalty income.

Management Plan - The procedures for reviewing royalty reports have been documented. We are instituting a Self-Audit Checklist, sent to licensees initially at the time of license, and periodically as needed after the first commercial sale. Full audits are expensive, so OTT will continue a system of broader "self-audits" complemented by full audits of strategic accounts. We will develop a formal plan and criteria for selecting licensees to audit.

- Conflicting Policies - The University of Michigan SPG section 303.4, Revised Policy on Intellectual Properties, and the newly revised University of Michigan Technology Transfer Policy relate to the same topics but do not contain the same information. The latter policy states that it replaces the SPG; however, the SPG is still accessible online. The availability of two different policies governing the same processes creates confusion and may lead to unnecessary conflict.

Management Plan - A request from Vice President Forrest was submitted on 4/4/07 requesting that SPG 303.4 be updated to the January 2007 revised Technology Transfer Policy.
Closed

OTT was very proactive in addressing concerns raised throughout the audit process. The SOA reconciliation is now current, the GPR was reviewed for FY07, and the procedures for reviewing royalty reports were promptly documented. A follow-up review will be conducted during the first quarter of fiscal year 2008 to verify that new processes are in place and working as intended.

Healthcare

Urban Health and Wellness Center - Flint Campus

#2007-207

Issued March 8, 2007

The Urban Health and Wellness Center (UHWC) is associated with the School of Health Professions and Studies (SHPS) at the University of Michigan–Flint. Its mission is to provide culturally competent clinical services, community-based participatory research, health promotion programs, and professional training. A Community Advisory Team meets bi-monthly to provide guidance to UHWC activity.

The Center was established in 2003 with the support of a \$1.2M development grant from the C.S. Mott Foundation and a \$1.3M research grant from the National Institutes of Health. In 2006, the Community Foundation of Greater Flint granted UHWC \$36,350 for clinic start-up funds. The clinic is located in the William S. White Building and contains over 10,000 square feet of newly-equipped patient examination, counseling, conferences and administrative office space. It also includes a physical therapy area with state of the art equipment and four individual examination rooms.

Clinical Services

The nurse practitioner-managed clinic began providing adult primary care (PC) and physical therapy (PT) services to Genesee Health Plan (GHP) members in May, 2006. Limited student health services were assumed by the clinic in the fall of 2006, and qualifying students have been enrolled in GHP through the clinic. Patients are seen four days a week. Genesys Regional Medical Center provides four hours a week of physician oversight of clinic activities, including on-site consultation for case discussions, protocol reviews and occasional patient visits when necessary. GHP is a community-based healthcare plan providing limited outpatient healthcare coverage for low income, uninsured Genesee county residents.

Community-Based Research

UHWC is committed to culturally competent research that addresses health disparities in the community. They have received four different research awards to date and are in the process of applying for two more. Funded research projects include:

- National Institutes of Health Office of Health Disparities Project EXPORT: Research on Health Disparities and Training
- Blue Cross Blue Shield of Michigan Foundation: Male Colorectal Cancer Awareness and Screening Project in Faith-Based Settings
- Health Plus of Michigan: Promoting Health Lifestyles for African-American Youth
- Ruth Mott Foundation: Genesee County Health Literacy Project

Health Promotion Activities and Professional Training

UHWC has participated in approximately 26 community events this past year. A community outreach director, funded through the EXPORT grant, has established community contacts and represents UHWC on ten community boards and councils. American Heart Association “Basic Life Support for Healthcare Providers” courses are offered monthly and are open to the community. Fifty-nine training sessions or workshops have been sponsored to promote cultural competence in healthcare and research.

The objective of this review was to provide a consultative assessment of the internal operational controls at the Flint Urban Health and Wellness Center. To meet this objective, we reviewed the following:

- The Memorandum of Understanding between UM-Flint and the University of Michigan Health Systems
- UHWC research grant management
- GHP contract requirements
- Clinical operations management including billing, accounts receivable management, electronic information systems, other fiscal responsibilities, and physical security
- Provider credentialing
- Privacy
- Risk management

Control Improvement Opportunities:

- UHWC Organizational Structure and Support - As a new venture in healthcare services and research on the Flint Campus, UHWC would benefit from a better defined relationship with University of Michigan Health Systems and related support structure.
- Provider Licensing and Sanctions Screening - UHWC should establish a process for ensuring that its nurse practitioners and physical therapists maintain unrestricted licenses and applicable certifications and that they are not sanctioned under federal and state laws.
- Clinical Business Operations – Management would benefit from more healthcare financial expertise and clarity in assignment of authority and responsibility for managing UHWC business operations.

Management Plan

- The UHWC director will meet with the Flint Campus acting Chancellor in March 2007 to discuss obtaining a new agreement with UMHS. The Chancellor will meet with UMHS officials by the end of April to discuss timeframes for completing the UMHS Compliance Office work plan and accessing CareWeb.
- A meeting with UMHS Compliance, Office of Clinical Affairs, and Ambulatory Care Services has been set for March 2007 to discuss contracting with UMHS for a collaborating physician/medical director of the UHWC. UHWC management anticipates securing the contract prior to April 21, 2007 when the Genesys contract expires.
- A UHWC Professional Advisory Committee will convene by the end of March 2007. Members of the committee will consist of representatives from various SHPS committees, selected SHPS faculty, and representatives from the Flint Accounting and Research offices. Representatives from UMHS Compliance, Risk Management and Quality Assurance offices will also participate.
- UHWC management will meet with UM-Flint Human Resources management by the end of March 2007 to formalize provider licensing policy and procedure. The UHWC director and business manager will ensure that Human Resources validation of licensing and certifications are validated at the time of provider hire and on an annual basis.
- The UHWC management will work with the UMHS Compliance Office to ensure required periodic UHWC personnel screening prior to May 2007.
- The following steps have been taken to strengthen financial management, ensure accurate accounting/reporting, and clearly delineate UHWC roles and responsibilities:
 - ✓ A new position, UHWC Business Manager, was created to handle daily budgeting and cash reconciliation for UHWC clinic and grant operations and will report to the director for Grants, Contracts and Management. The associate director has been given responsibility for all UHWC financial matters under the direction of the SHPS dean.
 - ✓ UHWC management met with UM-Flint Finance office staff to review budgets, billing, and accounting issues. A new financial reporting tool, to be managed by the associate director for Grants, Contracts and Management, was developed to track profitability, productivity, service statistics, and outstanding receivables on a monthly basis.
 - ✓ A policy for GHP billing and reporting with expected monthly completion dates was codified; responsibility for completion was clearly delineated. This action is expected to ensure that revenue is consistently recorded in the month earned.
 - ✓ A meeting with UM-Flint's director of Financial Services will take place by May 2007 to transfer all billing authority to the UHWC.
 - ✓ The SHPS management team will review and rewrite all UHWC job descriptions to maximize quality assurance and efficiency, and minimize conflicts of interest prior to May 2007.

A follow-up review will be conducted during the first quarter of fiscal year 2008.

UMH Quality Improvement – Office of Patient Relations

#2007-816

Issued March 14, 2007

The Office of Patient Relations is a department within Quality Improvement at the University of Michigan Health System. Patient Relations works with patients and families having comments or concerns about their care. The Patient Relations staff answers questions about Hospital policies, facilitates communication among departments, and champions patient rights. Patients can file formal written or verbal grievances with the Office of Patient Relations in order to resolve care issues. In this context, the Office of Patient Relations is responsible for "service recovery." Service recovery involves

handling patient complaints of delayed or rescheduled procedures, and reports of lost personal property like eyeglasses and dentures. These patients are compensated for their lost time or property.

The objective of this audit was to determine whether the Office of Patient Relations has adequate control over P-Cards, purchasing, asset management, payroll and data access processes to ensure:

- Propriety of transactions
- Reliability and integrity of information
- Compliance with University policies
- Safeguarding assets (including University data)
- Economy and efficiency of operations

Control Issues:

- Gift Card Pilot - In May 2006, the Office of Patient Relations instituted a pilot program using gift cards for service recovery. Cards in varying denominations were purchased, stored in the Patient Relations office, and distributed by Patient Relations Coordinators (Coordinators). This review of the processes for acquiring, storing, safeguarding, distributing, and accounting for gift cards revealed significant internal control weaknesses. Gift cards must be treated as if they were cash, which means separating the duties of safeguarding, distributing, and accounting for cards.

Management Plan – At this time, management does not intend to continue with the Gift Card pilot program. Alternatives are being explored.

- Control of Petty Cash Processes – Controls need to be strengthened particularly:
 - o Reconciliations
 - o Documentation
 - o Authorization
 - o Documented business purpose

Management Plan - Coordinators have been instructed by the Director to:

- Ensure that all Petty Cash Forms include the patient's name, registration number, case number, item(s) being reimbursed, and a dated signature
- Forward all documentation to the Director for review after issuing payment if reimbursement totals \$100 or less
- Forward all documentation to the Director for pre-approval if reimbursement totals more than \$100

The Director's Executive Assistant will develop a monitoring document in March 2007. The new Manager will audit Petty Cash records at least monthly, beginning April 2007. Standard operating procedures and guidelines are being developed and will be available April 2007.

- Control of P-Card Processes - Strengthen controls over P-Card transactions by:
 - Re-training cardholders, reconcilers, approvers, and managers to ensure they thoroughly understand their responsibilities in these roles.
 - o Cardholders do not allow others to use the card.
 - o Reconcilers input descriptions for all transactions in M-Pathways.
 - o Approvers review all purchases to verify they are appropriate and compliant with University policy.
 - o Managers exercise discretion in approving changes in credit limits and card privileges.
 - o Training these same individuals in the appropriate exercise and delegation of signature authority.

- Holding cardholders accountable for purchases made on their P-Cards.
- Ensuring that P-Card purchases are documented by providing itemized receipts and explanations of what was purchased and its purpose.
- Verifying directly through financial system queries and reports that periods in which no P-Card statement was presented for approval actually contained no purchases.

Management Plan - All recommendations will be fully implemented. P-Card needs within Patient Relations will be reevaluated once a new Manager is in place.

- Purchase of Postage - The Office of Patient Relations incurs significant postage costs while corresponding with patients, guests, and service providers like audiologists, optometrists, and denturists. This review of purchasing activity found that large quantities of stamps were purchased from the U.S. Postal Service (USPS) and retailers. Improved logging and monitoring of postage use will improve efficiency and reduce the risk of loss.

Management Plan – The Director is currently investigating the potential best process in relation to work flow and time management for applying postage to the large volumes of daily mail. This includes benchmarking with billing and admitting areas. Anticipate implementing new process by April 2007.

- Recharges of Service Recovery Payments - The Office of Patient Relations should create guidelines for applying and documenting the charges incurred in service recovery and recharged to other departments. These guidelines should indicate the payment due to patients and guests in specific circumstances, any disqualifying factors, and authorization requirements. Coordinators and managers reviewing charges should ensure that payments conform to these guidelines.

Management Plan - The recommendations will be fully implemented. The Director has been working to establish standard work practices since December 2006 in all areas of Patient Relations. Guidelines are being developed to assure consistency in service recovery for all patients and guests. These guidelines will include:

- Rationale for reimbursing loss/theft
- Rationale for service recovery
- Rationale for recharging costs to a responsible unit/department

- Managerial Review of Expenditures - The Office of Patient Relations needs to create appropriate procedures and controls to monitor departmental financial activity in accordance with Standard Practice Guide (SPG) section 500.1 *Fiscal Responsibility*. To meet these responsibilities, the Manager should examine and approve Statements of Activity from the U-M Hospitals and Health Centers Data Mart on a monthly basis. Positive documentation of the review should be retained, either by filing initialed paper copies or by using workflow with appropriate electronic signature.

Management Plan - All recommendations will be fully implemented. Statements of Activity from the U-M Hospitals and Health Centers Data Mart are now being reviewed monthly by the Director's Executive Assistant with oversight from the Director. The minimum quarterly review of the Budget to Actual Report with written explanations for variances will be fully implemented in April 2007.

The new Manager will receive UMHS education and training in both the data systems and budget classes, as well as mentoring and monitoring by the Director and Executive Assistant.

- Integrity of the Service Recovery Database - Service recovery payments are recorded in a database by Coordinators. Entries can be edited by anyone in the office. This increases the risk that entries could be altered or removed inadvertently, or intentionally to conceal inappropriate use of funds.

Management Plan - Guidelines are being developed regarding appropriate system access, monitoring techniques, and documentation requirements.

- Sensitive Data Collection - The Petty Cash Forms used by the Office of Patient Relations request Social Security Number (SSN) as an identifier for patients or other recipients of service recovery reimbursement without a UMID. SPG 601.14 *Social Security Number Privacy Policy* states that SSNs will not be "publicly displayed" or "used as a primary number or identifier" for an individual.

Management Plan - Only the patient registration number and case number will be noted on the new "Mileage/Service Recovery Reimbursement Form" - Social Security numbers will not be used. All Coordinators were educated on this process at a January 2007 staff meeting. The new form is being reviewed and tested, and will be fully implemented in March 2007.

A follow-up review will be conducted during the fourth quarter of fiscal year 2007.

FOLLOW-UP REPORTS

Animal Care Administrative Processes

#2006-102-3

Original Report issued September 29, 2006

Follow-up Report issued March 8, 2007

- Controlled Drug Inventory: The Unit for Laboratory Animal Medicine (ULAM) Animal Drug Task Force was convened by the Office of the Vice President for Research in December 2006 to consider alternatives to the central ULAM animal research pharmacy. The committee will recommend guidelines and support for animal researchers through regulations, education and monitoring. The Unit for Laboratory Animal Medicine, the Department of Molecular and Cellular Developmental Biology (MCDB), and the Pharmacology Department implemented controls to improve drug inventory records and transfer of accountability for possession of drugs. The Psychology Department is working with LS&A senior administration to resolve concerns and barriers to complying with internal and external guidelines.
- Purchasing Activity: ULAM and the University Committee on Use and Care of Animals (UCUCA) administrators worked with Michigan Administrative Information Services to obtain a routine system report of non-ULAM animal purchases made through the M-Pathways procurement system. The reports are e-mailed to UCUCA for follow-up with principal investigators. Psychology, Pharmacology and MCDB departments have improved controls to ensure accountability for purchased goods by implementing various procedures including:
 - o Supervisory review of purchases made by individuals who also review statements of activity
 - o Requiring a signature from individuals who pick up packages from central receiving locations
 - o Signing packing slips to validate package contents and forwarding them to staff who reconciles receipts with the statements of activities
- Animal Facilities and Laboratory Security: Psychology Department administration changed the locks to animal facilities and issued new keys. The facilities operations manager will perform periodic reviews to ensure accountability for all keys. MCDB initiated annual changes to combination locks to animal facilities and recommended storing combinations in password

protected files and changing passwords when there are staff changes. It is not possible to restrict groups of ULAM employees to limited sets of facilities due to card-reader security system limitations and the need to provide 24 hours/7days a week animal care. ULAM administration is performing periodic matches of security card access to employee status and recent terminations to restrict facility access to active and authorized employees.

- Disaster Planning: Non-ULAM animal disaster recovery plans have been documented and expanded to include more comprehensive detail.

Outstanding issues have been appropriately addressed. **This audit is closed.**

UMHS MLabs

#2006-112

Original Report issued January 19, 2006

Follow-up Report issued March 15, 2007

- Diagnosis Coding: MLabs requisition forms were redesigned to require an ICD-9 principal diagnosis code. In addition, lab personnel are immediately contacting the provider if the form is not completely filled out.
- Contracting/Legal Agreements: A standard contracting template approved by the Office of General Counsel is now in use for all MLabs agreements. All agreements are now signed by the executive vice president for Medical Affairs or a designate.
- Sendouts and MLabs Client Billing: A new database is currently in development and will be completed by July 1, 2007 to coincide with a UMHHC billing system upgrade. Plans are in place to hire an additional position by April 2007 to provide additional support and back-up.
- Inaccurate Pricing Data: A 100% comparison of lab pricing and hospital pricing was performed as of 7/1/2006 and will be performed on an annual basis. Sample audits are also performed on a periodic basis. Communication processes between contracting and charge master personnel have been improved to ensure any fee changes are appropriately communicated.
- Monitoring Tests Outstanding: A new report is now in use that allows staff to monitor and follow-up on outstanding tests.
- Reconciliation of Reference Lab Bills: MLabs management has requested their major reference lab supplier provide procedure codes on invoices and an electronic file so they can efficiently match up invoice prices with fee schedules. In the interim, they are conducting sample audits of invoices to ensure amounts invoiced are priced according to contract.

All issues have been addressed appropriately. **This audit is closed.**

Materiel Services Center - UMHS

#2006-106

Original Report issued September 29, 2006

Follow-up Report issued March 23, 2007

- Formal Authorization for Receivers of Goods: All department staff authorized to receive goods are required to take an M-Learning module on the receiving process. Upon successful completion of the module, staff are formally authorized to receive goods.
- Physical Access to Dock 5: Proposals have been submitted to establish an employee entrance on level B1 and/or to build a walkway over East Medical Center Drive for employees and visitors. Any proposed construction is two years or more away due to current Mott Hospital construction. As an interim solution, signs have been posted in the receiving area that this is not an entrance and Hospital Security has increased monitoring the area.
- Accounting for Receiving Reports: Accounting for receiving report processes have been prepared and implemented including the usage of pre-numbered receiving forms.
- Inventory Cycle Counts: Materiel Services are performing one and a half hour cycle counts once a month on a selected Thursday. More spot counts of inventory are also being conducted.

- Business Continuity Plan: Utilities Services has completed and implemented a business continuity plan which complies with University guidelines.
- Password Controls: The vendor has included encryption of the configured password in the newest release of the Energy Billing System (EBS) client which has been scheduled for installation by Utilities Services.
- Security Monitoring: Security policies have been completed and reviewed by University Audits.
- Virtual Firewall: The servers hosting the Energy Billing System currently use operating system firewalls for protection of the application. The virtual firewall will be installed for this area in March. These controls are adequate to protect the data.

This follow-up review has verified that management has taken corrective actions on the audit recommendations. **This audit is closed.**

University Health Services

#2006-111

Original Report issued November 14, 2006

Follow-up Report issued April 11, 2007

- Documented Billing Policies and Procedures: UHS is updating and expanding billing policies and procedures, both in response to the audit and in preparation for their accreditation through the Accreditation Association for Ambulatory Health Care. Policy and procedures will be available to UHS staff on-line. The Business Office Manager is a member of the UHS Compliance Oversight Committee and is presenting billing reports and discussion items to the committee as needed.
- Coordination and Communication: Coordination and communication regarding billing practices has been strengthened by the Business Office Manager's participation with and reporting to the UHS Compliance Committee as described in action plan #1 above.
- Payment Processing—Unapplied Payments: A new Cash Pending policy and procedure has been developed to segregate the recording and handling of misapplied payments. The account has been re-categorized as "Cash Pending" to more accurately describe its purpose.
- Medical Record Documented Services: The Allergy Clinic has implemented appropriate medical record documentation procedures so that all treatment activity is readily available to other clinicians throughout the building.
- Management of Patient Charge Forms: A Physical Therapy charge form has been developed to meet unique scheduling requirements and is in the testing stage. August 2007 is the target date for implementation. Additional training and monitoring is occurring in the interim.
- Cash Handling in the Clinics: The Allergy Clinic has implemented appropriate cash handling and reconciliation procedures.
- Management of Inventory Practices: Policies and procedures have been documented to address equipment purchasing, inventory and disposal. UHS Purchasing Services is responsible for purchasing computer equipment and UHS IT is responsible for equipment disposition to ensure appropriate segregation of responsibility. An inventory of all IT equipment has been performed and will be performed bi-annually by the building operations manager. The IT manager reconciles the UHS Purchasing database to the IT inventory database and to statements of activity.

Issues are being appropriately addressed. **This audit is closed.**

UMHHC Pathology IT Security

#2006-401

Original Report issued September 29, 2006

Follow-up Report issued April 11, 2007

- Control of server room access: Management has implemented two temporary controls:
 - o Hospital Security will lock down the outer suite card reader 24 hours a day 7 days a week, beginning 4/3/07
 - o The computer operator will keep the server room's front door locked with a key at all times

These controls were implemented in lieu of the combination lock originally proposed by management as an interim solution.

The permanent control planned by management has not changed. Server room reconstruction will result in one server room door with a 24 hours a day, 7 days a week locked card reader.

The reconstruction is now underway. The temporary controls will remain in place throughout construction.

- Periodic review of card reader access: A review of card reader access is being performed. A policy requiring these reviews be carried out every six months has been written and approved by management. University Audits reviewed the policy and suggested improving it by describing the review process, including the criteria for deciding whether an individual found on the list should have access to the server room. Management concurred and is revising the policy.

Management has implemented interim controls to mitigate any risk in the above areas. **This audit is closed.**

Professional Fee Billing Compliance

#2005-126

Original Report issued December 22, 2005

Follow-up report issued April 11, 2007

- Program Coordination and Guidance: The Medical School Compliance Committee has documented a charge to the Faculty Group Practice (FGP) Board to provide oversight, management and responsibility for professional fee billing compliance. The document addresses the reorganized professional fee compliance structure and was effective in November 2006.
- Compliance Reporting: The co-chairs of the Professional Billing and Compliance Committee meet with the Executive Medical Director of the FGP once a month on a date following Professional Fee Billing and Compliance meetings. Formal reporting to the FGP as a whole will occur twice a year in June and January.
- Compliance Plan: The Professional Fee Billing Compliance Plan was approved by the FGP Board in January 2007 and will be reviewed at six-month intervals. Individual department plans are integrated into the FGP Compliance Work Plan.
- Annual Program Assessment: The Director of Medical School Compliance Regulatory and Business Affairs is a member of the Reimbursement, Compliance and Education (RCE) subcommittee of the Professional Billing and Compliance Committee. Ongoing communication regarding the program including education, disciplinary actions and the work plan are discussed monthly and minutes are distributed to all members.
- Systemic Enforcement of Standards: A corrective action policy is targeted for completion in April 2007 and will be included in the July 2007 report to the FGP Board.
- Complaints Management: A draft "Communication to Faculty & Staff Regarding Complaint/Issues Reporting" is being developed for inclusion on the Compliance web site and the False Claims Act M-Learning Module will address this issue for all staff.

- Education and Training: The RCE subcommittee documented charge assigns responsibility for overseeing professional fee billing reimbursement, compliance, and education. RCE meeting agendas include a standing education plan item.
- Access to Electronic Information: Professional Billing Technical Services will include the Professional Fee Billing Compliance directory in their monthly process for ensuring that terminated employees do not have access to the directory. They will also perform a quarterly check that access has been removed for transferred employees.

Medical School Compliance and Professional Fee Billing management have addressed all control recommendations in the process of developing a new Medical School compliance organizational and reporting structure that integrates Professional Fee Billing Compliance, Medical School Compliance and the operational units where activities originate. **This audit is closed.**

University of Michigan Medical School – Anesthesiology IT Security

#2006-404

Original Report issued September 30, 2006

Follow-up Report issued April 13, 2007

Management has taken appropriate corrective action on audit recommendations as described below.

This audit is closed.

- Storage of Social Security numbers: The audit report recommended removing Social Security Numbers (SSNs) from the Centricity information system based on the assumption that they would remain unused. Management has since planned a series of patient kiosk computers for clinics that may utilize SSNs. Planning is in the early stages, and the kiosk software is a new product. Management estimates that it will take up to 12 months to learn how the kiosks will utilize SSN data and whether it is needed. Until then, management has chosen to accept the risk of continuing to store SSNs in Centricity. Management assured us that any kiosks will comply with UMHS policy and SPG 601.14, which provide guidelines on using, displaying, and storing SSNs. Based on the change in circumstances arising from this business use of SSNs, and management's verbal assurance that this use will comply with University policy, this issue is closed.
- Physical access control: A proposal for installing card readers on the Clinical Application Services team (CAS) server rooms was submitted to Facilities and given preliminary approval. Final approval from UMH administration is pending.
- Physical locks on workstations: Combination cable locks were installed on all CAS-managed workstations in "UMHS Public" areas. Locks were observed in all affected units: the Post-Anesthesia Care Unit (PACU), Pre-Op, and Trauma Burn.

Library Special Collections

#2006-205

Original Report issued June 16, 2006

Follow-up Report issued April 24, 2007

- SCL – Storage and Processing Space - At the time of the audit, the staff area and many aisles of the Special Collections Library's stacks were lined with piles of boxes of uncataloged and unprocessed materials. This exposed the unprocessed materials to access by any person entering the Reading Room. Such unprocessed material should be stored in a manner that protects them from environmental damage and physical loss. Management committed to identify secure space for storage of unprocessed materials and for work space for processing materials so that visitors to the Special Collections Library will no longer have access to the unprocessed materials. The issue has been raised with the Provost's Office to identify suitable offsite space. The target date for resolution of this issue is 6/30/2007. At the request of the University Librarian, University Audits will follow-up at that time to ensure that this issue has been specifically addressed.

- SCL - Special Collections Cataloging and Processing Backlog - The Special Collections Library had a backlog of unprocessed published materials. In order to reduce the risk of loss of uncataloged material and decrease user dissatisfaction, University Library agreed to develop a plan to reduce the cataloging and processing backlog of the Special Collections Library. This plan would include an inventory control system that has the capability of processing and documenting many of the items in the backlog. University Library has launched a programmatic review including a special study of the cataloging function throughout the library. A consulting firm specializing in technical services workflow worked with Library management to develop and make recommendations for streamlining the cataloging process. These recommendations, which specifically address the Special Collections backlog, are in the process of being adopted. **Closed**
- SCL - Papyrology Vault Issue - At the time of the audit, it was noted that the Papyrology vault's mechanical system had been experiencing intermittent outages, placing the environmentally sensitive collection at risk. University Library management worked with Architectural Engineering Services and the mechanical systems vendor to ensure that the construction work and changeover to the new system is done efficiently to minimize stress to the papyri. The old mechanicals were eliminated as of 2/27/2007. A new system has been installed and is functioning effectively. **Closed**
- Bentley and University Libraries Insurance Issues - It was noted during the review of Special Collections that Bentley and University Libraries do not adequately insure certain types of valuable or irreplaceable items. The following steps were taken to address this issue:
 - o University Library management conferred with Risk Management, peer institutions, and Papyrology organizations to determine whether other Papyri collections in this country are insured and, if so, how current values for insurance purposes were set.
 - o University Library has discussed coverage options, based upon a benchmarking study, with Risk Management.
 - o Bentley Library worked with Risk Management to insure the most valuable artwork and fine furnishings.
 - o Bentley Library is also insuring a few artifacts from China and Africa donated by a former Governor and U.S. Assistant Secretary of State. **Closed**
- Disaster Recovery Plan Testing Issue at Bentley and University Libraries - Each library's disaster recovery plan needed to be expanded to include periodic testing to enhance the plan's effectiveness. Disaster plan testing teams were formed. University Library management held a half-day training session on disaster response on December 8, 2006 for staff from the Special Collections Library, Conservation Laboratory, and Building Services. All participants were also given printed material outlining the basic responses to a disaster. There has been an emergency contact list created for Special Collections Staff. A new comprehensive "Bentley Library Disaster Plan," has also been created using a specialized software program located at the Northeast Document Conservation Center. Additional staff training on this comprehensive disaster plan is underway. **Closed**

A second follow-up review will be conducted during the first quarter of FY 2008 to review the resolution of the Special Collections Library's space needs for uncataloged and unprocessed materials. All other issues have been satisfactorily addressed.

Credit Card Processing

#2006-121

Original Report issued November 30, 2006

Follow-up Report issued April 24, 2007

- Updates to the Service Level Agreement: The Treasurer's Office, in conjunction with Information Technology Security Services (ITSS) developed a document to address Payment

Card Industry (PCI) compliance to both business and information technology (IT) personnel. The documents were disseminated at the Merchant Card Forum on April 4, 2007. **Closed**

- Communication of Payment Card Industry Standards: The Treasurer's Office, in conjunction with ITSS, developed a document to address PCI compliance to both business and IT personnel. The Treasurer and Director of ITSS spoke to BAG in March and with the business and IT contacts at the April 4th forum. They were advised of the PCI standards and were supportive of the forum as an appropriate communication plan. **Closed**
- Incident Response Plans: The revised Service Level Agreement will incorporate a reference to SPG section 601.25 which outlines the incident reporting policy for all University units. The SLA has been updated with a Merchant Card Credit Policy document. **Closed**
- Documenting Information Security Policies: The current compliance documents being authored by Treasury and ITSS will provide clearer guidance and reference for the merchants. There is a section (3.4) in the policy document on internal controls which requires a written internal control plan. **Closed**

Management has taken the appropriate steps and corrective action on all major audit recommendations. **This audit is closed.**

UMHHC Radiology IT Security

#2005-338

Original Report issued May 23, 2006

Follow-up Report issued April 30, 2007

- File Room Access: To improve control of access to the file room housing patient records, Radiology began pursuing the installation of a card reader on an unlocked staff entrance to the file room as we recommended. They subsequently postponed it while developing a more comprehensive remodeling plan to expand their computer room within the file room. The remodel would have included the recommended card reader among other file room security improvements.

We were notified in March 2007 that the file room expansion has been canceled due to lack of funds. Radiology resubmitted the original card reader installation work order, with funds and approvals in place, and is awaiting a start date from Hospital Facilities.

- Password Security: A variety of password controls were recommended for the three key systems reviewed – the Radiology Information System (RIS), dictation system, and Picture Archiving and Communication System (PACS). These controls included password length, complexity, and expiration requirements, as well as encrypted transmission, to ensure that access cannot be obtained through eavesdropping or guesswork.

Password length requirements have been implemented on the RIS and dictation system. Password expiration has also been implemented on the RIS. SSL encryption was implemented on the RIS prior to issuance of the audit report.

Although password complexity requirements have not been implemented on the RIS or PACS, management is actively addressing improvement of password security. Testing is still being performed on the RIS to ensure minimal business disruption when the complexity requirement is turned on. Strong initial PACS passwords and monthly tests for blank passwords now compensate for the absence of password complexity enforcement in the PACS.

Password expiration requirements have not yet been implemented in the dictation system or PACS. Management is working toward improvement of password security in these areas as well.

Based on the work completed to date, assurances from management that remaining password controls will be implemented, and progress toward replacing the PACS, this item is closed.

- Generic user accounts: UMHS policy requires that users of systems containing Electronic Protected Health Information be uniquely identified. Generic user accounts were used in the dictation system to correct errors and manage the flow of reports. These generic accounts have been removed.
- Review of unused and idle accounts: The PACS system was not checked for unused or idle user accounts. These accounts are now being reviewed on a regular basis.
- Periodic Review of System Access Privileges: System access privileges were not periodically reviewed for users of the RIS, PACS, and dictation systems. A database was developed to track user privileges. Reports of user rights are sent to managers who validate the user's need for that access.
- Documentation of Increases in System Access: When system access privileges for existing users were increased, documentation of managerial authorization was not consistently obtained. A memo was circulated to managers advising that requests to increase access require a signed user access form. Managers are complying with the associated new policy requirement, submitting request forms for all privilege increases.
- Review of the Institutional Termination List: Radiology was reviewing the Institutional Termination List only for individuals listed as Radiology affiliates, which could overlook non-Radiology staff with access to Radiology systems, or staff with incorrect or incomplete department affiliation information. A software utility was developed to identify holders of Radiology accounts in the Institutional Termination List by matching the accounts in the list with accounts in the RIS. Accounts that match are manually removed from all Radiology systems by appropriate Administrators. The utility is run each day after the list is received by the Account Administrator.

Radiology management has taken appropriate corrective action on all audit recommendations. **This audit is closed.**

Michigan Public Media – Phase I Second Follow-up Review

#2006-806

Original Report issued March 24, 2006

First Follow-up Report issued July 31, 2006

Second Follow-up Report issued May 10, 2007

This memo summarizes the results of the second follow-up review of the issues and corrective actions identified in the original report. MPM management has now addressed all control recommendations as outlined below. **This audit is closed.**

1. Oversight and Accountability of In-Kind Trade Agreements

Policies and procedures have been developed to support a much stronger internal control structure as it pertains to underwriting agreements and more specifically, in-kind trade agreements. Underwriting, Gift & Gratuity and Conflict of Interest policies have been created, standardized forms are available and a chain-of-command has been established for responsible authorization of in-kind trades. Staff training is on-going, and policy certifications are now mandatory. All in-kind trade underwriting agreements must be accompanied by an approved contract, which clearly indicates the total value of the trade. Tracking mechanisms have been established for recording valuation and utilization of the trade through the use of Delta Flex for Radio and excel spreadsheets for Television. **Issue closed**

2. Management of On-Air Announcements and Pricing of Air-Time

An underwriting policy governing the assignment of on-air announcement time has been completed and distributed to all underwriting staff. Preventative controls, such as a standardized continuity request form and rate card system, require management-level negotiation of terms and restrict employees from formal bidding with clients. **Issue closed**

3. Bonus Payments

Management has restructured the quarterly bonus system and clearly defined the related award process. The compensation structure was communicated to eligible staff in September 2006 and is detailed in offer letters to new employees. Bonuses are being calculated and authorized in accordance with the new policy. **Issue closed**

4. Purchasing and Inventory Management

New purchasing procedures, including P-Card policies, have been distributed. Pre-authorization reviews of purchases over certain thresholds are required. Testing of purchasing activity by University Audits revealed no exceptions to the policy.

A new inventory policy and process has been instituted for non-capital assets. Equipment, computers, etc. are being tracked in detailed logs by WUOM's Chief Engineer along with serial numbers, location and warranty information where applicable. In addition, the inventory of premium gifts has been moved off-site. Orders are placed and inventories are maintained through suppliers such as Forest Incentives, and a log of available items is maintained by MPM. **Issue closed**

5. Appropriate Documentation and Oversight of Expenses

A new policy has been distributed requiring original receipts for all expenditures regardless of dollar amount, and meal expenses have been reduced below the University's limits. Staff have received a copy of the new MPM P-Card Policy and have signed attestations as to their understanding of the policy. Testing of P-Card transactions by University Audits did not reveal any compliance issues.

Management will continue to review purchasing policies and procedures annually. **Issue closed**

Michigan Public Media – Phase II Follow-up

Original Report issued April 24, 2006

#2006-806

First Follow-up Report issued May 10, 2007

Progress has been made in implementing a stronger control environment; however, there are remaining issues that are being addressed by management. University Audits will conduct another follow-up review during the second quarter of fiscal year 2008 to review the four remaining open issues.

1. Assessment of Leadership Performance and Responsibilities

Written guidelines were distributed to supervisors and used to complete staff evaluations. Original evaluations are now being kept in each employee's personnel file.

In addition, a matrix of performance ratings has been created and is being used by management to determine and support merit increase decisions. A similar underwriting collection matrix is being used to track eligibility for and awards of quarterly bonuses. Source documentation was available to verify the accuracy and appropriateness of bonuses awarded so far this year. **Issue closed**

2. Accounting Oversight and Support

A new policy clarifying MPM account oversight and monitoring controls as well as appropriate segregation of duties is being drafted by management. Improvements have been made in the reconciliation processes for P-Card statements back to the source documentation.

Other than gift revenue, Statements of Activity are being reconciled in detail. Management is aware of the need to more fully reconcile gift revenues. However, the large volume of transactions and the

incompatibility of their departmental gift reporting system, Allegiance, with the University's proprietary gift administration system, DAC, make this a long-term project.

In the short term, Management is working closely with the Office of University Development to reconcile gift records in Allegiance with DAC. In addition, they have requested bank account access via the Treasurer's Office so that they can better identify and agree individual credit card gifts to the amounts uploaded to the General Ledger via Fifth Third Bank. MPM's longer term strategy centers on integrating their departmental-specific data into the forthcoming conversion of DAC, thereby eliminating their need for a stand-alone system. University Audits will revisit this issue on our next follow-up review.

Issue remains open

3. Financial and Operational Policies

Policies and procedures related to cash processing, gifts and gratuities, expense processing and authorization, conflicts of interest, equipment maintenance and travel reimbursement have been formalized in writing and distributed to all staff. Staff can also access the policies electronically via the "common" drive, and management is working to familiarize staff with that resource. However, this drive also includes superseded versions of policies which might create confusion. Superseded versions can be kept if necessary, but should be maintained in a separate file used only by management for reviewing history.

Management is finalizing a comprehensive manual of department policies. They are in the process of reviewing Standard Practice Guides sections 201.86 "Services of Independent Consultants" and 507.4 "Independent Consultants" with the intention of including these standards in their manual along with additional departmental guidelines specific to MPM's use of independent consultants, if necessary. All policies and their applications will be reviewed during the next follow-up visit. **Issue remains open**

4. Pay Practices

Management has established new procedures for the proper authorization and handling of time reports and the tracking of off-site work. Time reports are being consistently signed and approved by management. Original reports are no longer returned to the employee after approval. In addition, a calendaring system has been implemented to better identify and track individuals who are on assignment outside of the MPM office.

Although MPM is performing a high level review of the Gross Pay Register, they are not agreeing the register to the related time reports. Standard Practice Guide section 518.1 "Payroll Controls" indicates that "Gross Pay Registers for staff members who are required to report hours worked must be compared to internal time records, copies of time reports, and overtime payment forms." MPM is regularly reviewing exception and summary time reports; however, detailed comparison of the Gross Pay Register to actual time reports is a best practice they have yet to adopt. Management has agreed to immediately implement this reconciliation practice and we will review their progress during our next follow-up visit. **Issue remains open**

5. Management of Premium Gifts

Premium gifts are now being housed and distributed centrally through two main vendors, Visibility and Forest Incentives. Any specialty orders that need to be managed by MPM are verified, recorded and reconciled with appropriate segregation of duties. Items stored on-site are kept in a secure area with limited access; distribution is documented appropriately. **Issue closed**

6. Inventory Practices

MPM created a comprehensive CD inventory listing. Non-capital assets are now being recorded in equipment logs, complete with location, serial number and warranty information where appropriate. Computer, cell phone and studio equipment inventories are maintained and regularly updated by the IT

engineer. The new inventory practices have been applied to both the Flint and Ann Arbor locations.

Issue closed

7. Grant Management

The review of all MPM grants performed by an outside consulting firm revealed that funds were spent in accordance with the grant agreements.

MPM has hired an additional employee with extensive grant experience to assist with the reconciliation and review of sponsored grants. The director and grant administrator are meeting monthly to review the status of grants, including budget to actual, available balance, and current period expenses.

All MPM staff with grant responsibilities have received training through the Office of Sponsored Programs. Reconciliations of grants including funding and expenses are current. **Issue closed**

8. Conflict of Interest

MPM has written and formalized a Conflict of Interest policy with the approval of the Office of the General Counsel. Disclosure forms were circulated to all staff for signature and will be re-distributed periodically for updates. In addition, formal work plans are being established where disclosures have been made. **Issue closed**

9. Relationships with Third Parties

Responsibility for the initial authorization of payments to independent consultants (Form G-2) has been assigned to the MPM Station Manager. Initial payment requests over \$2,500 are then forwarded to the director of MPM as well as the media financial officer for secondary review and approval. Non-PO vouchers are sent directly to the media financial officer for review and approval. **Issue closed**

10. Business Continuity

MPM now locks all hallway and shop entrance doors when authorized personnel are not present. They should also be recognized for their efforts in creating a very thorough and detailed Pandemic Preparedness Plan which would address issues arising from an influenza, or similar epidemic.

There is still a need for a true Business Continuity / Disaster Preparedness Plan for MPM because it provides essential news and information services to the community. Although the Pandemic Plan addresses some of the issues that might arise as the result of a natural disaster, such as network outages, etc., it does not speak to other possibilities such as the destruction of one or more of the towers. MPM should continue to create and document a sound business continuity plan. University Audits will revisit this issue on our next follow-up review. **Issue remains open**

11. Allegiance and Security Rights

MPM has placed new limits on read/write access to their gift revenue system, Allegiance. A review of current access levels revealed that appropriate access is being granted based on user role and that unique passwords are held by all staff. In addition, a transaction journal report is run weekly and reviewed for appropriate activity. **Issue closed**

University Audits – University of Michigan
Open Audits Follow-up Table
May 10, 2007

Audit Title	Report Date	Status	Expected Completion
University of Michigan Computing Environment CoSign Web Authentication 2006-303	11/28/06	Issues being addressed include relocation of a server and formalization of departmental procedures.	June 2007
MCIT Taubman Machine Room 2007-306	2/28/07	MCIT is addressing environmental problems in the Taubman machine room; also moving 40% of servers to new Arbor Lakes computer room.	September 2007
UMMS Surgery Research Labs IT Security 2006-403	2/28/07	Department of Surgery is addressing issues related to IT administration and security.	June 2007
UMHHC Vendor Discounts, Allowances, and Rebates 2006-119	7/19/06	A review was conducted in February 2007. Deposits are made more often, but still are not on a daily basis when large dollar amounts are received.	May 2007
Graduate Medical Education – Veterans Administration Billing 2006-128	11/30/06	Improving procedures that support billing from the VA for UM Graduate Medical Education.	May 2007
Urban Health and Wellness Center – Flint 2007-207	3/8/07	MOU with UMHS was renewed. Improvements in clinic operations are underway.	August 2007
UMH Quality Improvement – Office of Patient Relations 2007-816	3/14/07	Management is addressing controls over financial activity, access to database and use of SSN's.	June 2007
Michigan Public Media – Phase II	4/24/06	First follow-up report was issued 5/10/07. MPM is still working to: strengthen controls related to gift and payroll reconciliations; develop certain written polices and procedures; complete a business continuity plan.	October 2007
Library Special Collections 2006-205	6/16/06	Library administration is still addressing space needs for unprocessed materials.	First follow-up Completed 4/24/07 Second follow-up August 2007
Intercollegiate Athletics Sports Camps 2006-410	7/28/06	Operational improvements are being implemented regarding background checks, contracts, financial records, reconciliations, time away policy and cash management.	May 2007

College of Engineering – Minority Engineering Program Office 2006-813	9/29/06	CoE and MEPO created a thorough management plan to address the audit issues; the follow-up review is currently being conducted.	May 2007
NCAA Compliance – Recruiting 2007-405	11/16/06	Improving the quality of recruiting support documentation.	June 2007
Autism & Communication Disorders Center 2006-814	11/22/06	Procedures will be documented.	May 2007
Procurement Services Procurement Card Program 2007-115	2/5/07	Phase I - Procurement Services will utilize data mining tools and reduce transaction based monitoring; additional focus on training and accountability of P-Card approvers, provide guidelines for card issuance, and utilize electronic resources. Phase II – annual monitoring of card activity by dept.	Phase I – June 2007 Phase II – March 2008
Recreational Sports Business Office Internal Controls Review 2007-813	2/20/07	IM Building procedures were reviewed but action plans will be implemented in all Recreation Services locations	June 2007
Plant Operations Zone Maintenance Purchasing Controls 2007-812	4/24/07	Management is in the process of strengthening internal controls over purchasing. New methods for handling inventory receiving and tracking are being studied.	September 2007
Office of Technology Transfer Key Processes 2007-105	4/30/07	Accounts receivable best practices will be addressed; the royalty report review process will be formalized.	September 2007